SmartMoney

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Protecting Your Retirement Savings in Volatile Times

OCTOBER'S VOLATILE LOSING STREAK has wreaked further havoc on people's retirement accounts. Investors have lost a stunning $2 trillion in their retirement savings over the past 15 months, according to Congress's top budget analyst.

With such giant losses accruing on an almost-daily basis, you may want to take whatever money you have left and run. Make every effort to resist that temptation. Panicking and pulling your money out of the market now is the absolute worst thing you could do, says Bill Losey, a financial planner and author of "Retire in a Weekend." Cash out when the market is at or near a bottom and you'll miss out on the market rebound. "If you miss the first couple of days of a rebound, you could potentially miss out on a third of the recovery," warns Losey.

Here's how to stay rational about your retirement savings during irrational times.

Starting Out

For investors who are just starting to put money away for retirement, the key to savings success is to sock away as much as possible. Time is on a young investor's side. Your money will have decades to enjoy tax-deferred compounded growth. And although this may feel like a risky time to keep contributing to a 401(k) or IRA, it's actually a great buying opportunity, says Losey. With the S&P 500 down some 40% this year, the market is essentially on sale, allowing investors to pick up more shares with the same dollars than they could have just a few weeks ago, he says. Consequently, anyone with a little extra cash should consider increasing their retirement account contributions.

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Forty- and fifty-something's who've been saving for retirement for years now, should also increase their retirement contributions. The purpose, however, is not to take advantage of beaten-down stock prices, but rather to counteract losses in your portfolio. Since you don't have as many years to recover as someone in their 20s and 30s, you'll need to add new money to your 401(k).

If you're already maxing out a 401(k), now's also the time to start contributing to an IRA or Roth IRA. Those who've hit 50 should take advantage of the catch-up provision, which allows you to invest an extra $5,000 into a 401(k), and an additional $1,000 into an IRA or Roth IRA.

As for asset allocation, people who are still 10 or 20 years away from retirement should evaluate their current asset allocation and make sure it's invested with about 60% of their portfolio weighted toward equities. (The remaining 40% should go toward bonds). This money needs to potentially last another 50 years and it needs the growth that stocks can offer, says T. Rowe Price's senior financial planner Christine Fahlund. "If there is a silver lining, at least it's costing you less to get the stocks you need," she says.

Read *our story*[1] for more on investing in your 50s.

About to Retire

Investors in their early 60s should continue to invest aggressively in their 401(k)s and other retirement accounts. New money, however, should go toward rebalancing the portfolio. Chances are the portfolio is now heavily weighted toward bonds because the equity portion has decreased so much in value. Now it's important to work on getting the asset allocation back to about 50% in stocks, says Fahlund.

Unfortunately, the losses sustained on 401(k)s and IRAs are so severe that anyone planning to retire over the next five years should reconsider leaving their job. "It's much better to stay with an employer, maintain your benefits, and have fewer years to support yourself," says Fahlund.

Also, try to hold off on dipping into Social Security. The government allows workers to start receiving Social Security benefits at as young as 62. Wait until the full retirement age (for those born between 1939 and 1942, it falls during your 65th year; for those born between 1943 and 1954, age 66) and the government will award a "delayed retirement credit" that adds 8% to benefits each year until age 70. Use the Social Security Administration's retirement planner *here*[2] to help you figure out when to start receiving your benefits.

Read *our story*[3] for more last-minute retirement tips.

Already Retired

The primary goal for current retirees is to make sure they don't outlive their retirement savings. Panicking and shifting all of your assets over to bonds, practically guarantees that you'll run out of money, says T. Rowe Price's Fahlund. A better game plan during a bear market is to decrease the amount of money you withdraw from your nest egg. Of course, that's easier said than done. The least painful way to go about this is to keep distributions at the same level each year until the market recovers, instead of increasing them for inflation.

Most retirees may not want to hear this, but it's a good idea to consider getting a part-time job, as well. Securing a position that pays just $20,000 a year is the functional equivalent to living off the income generated from a $500,000 portfolio, according to T.Rowe Price.

[1] http://www.smartmoney.com/top5/index.cfm?story=20080306
[2] http://www.ssa.gov/retire2
[3] http://www.smartmoney.com/consumer/index.cfm?story=5-Last-Minute-Retirement-Tips

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